UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-2700

El Paso Natural Gas Company

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**74-0608280** (I.R.S. Employer Identification No.)
El Paso Building **1001 Louisiana Street** **Houston, Texas** (Address of Principal Executive Offices)	**77002** (Zip Code)

Telephone Number: **(713) 420-2600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $1.00 per share. Shares outstanding on May 10, 2002: 1,000

EL PASO NATURAL GAS COMPANY MEETS THE CONDITIONS OF GENERAL INSTRUCTION H(1)(a) and (b) OF FORM 10-Q AND IS THEREFORE FILING THIS REPORT WITH A REDUCED DISCLOSURE FORMAT AS PERMITTED BY SUCH INSTRUCTION.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO NATURAL GAS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions)
(Unaudited)

	Quarter Ended March 31, 2002	Quarter Ended March 31, 2001
Operating revenues	$152	$141
Operating expenses		
Operation and maintenance	50	41
Merger-related costs	—	8
Depreciation, depletion and amortization	13	17
Taxes, other than income taxes	8	8
	71	74
Operating income	81	67
Other income, net	1	—
Income before interest and income taxes	82	67
Non-affiliated interest and debt expense	16	23
Affiliated interest income	(6)	(19)
Income taxes	28	23
	38	27
Net income	$ 44	$ 40

See accompanying notes.

EL PASO NATURAL GAS COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)
(Unaudited)

	March 31, 2002	December 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ —
Accounts and notes receivable, net		
Customer	71	97
Affiliates	1,239	1,298
Other	1	6
Materials and supplies	41	39
Other	12	16
Total current assets	1,364	1,456
Property, plant and equipment, at cost	2,937	2,940
Less accumulated depreciation, depletion and amortization	1,136	1,142
Total property, plant and equipment, net	1,801	1,798
Other	81	90
Total assets	$3,246	$3,344
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable		
Trade	$ 16	$ 54
Affiliates	10	9
Other	6	9
Short-term borrowings (including current maturities of long-term debt)	560	654
Taxes payable	137	117
Other	93	93
Total current liabilities	822	936
Long-term debt, less current maturities	659	659
Other liabilities		
Deferred income taxes	290	282
Other	158	169
	448	451
Commitments and contingencies		
Stockholder's equity		
Preferred stock, 8%, par value $0.01 per share; authorized 1,000,000 shares; issued 500,000 shares; stated at liquidation value	350	350
Common stock, par value $1 per share; authorized and issued 1,000 shares	—	—
Additional paid-in capital	714	714
Retained earnings	253	234
Total stockholder's equity	1,317	1,298
Total liabilities and stockholder's equity	$3,246	$3,344

See accompanying notes.

EL PASO NATURAL GAS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Cash flows from operating activities		
Net income	$ 44	$ 40
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	13	17
Deferred income tax expense	9	10
Net gain on the sale of assets	(1)	—
Risk-sharing revenue	(8)	(8)
Working capital changes	6	9
Non-working capital changes and other	9	—
Net cash provided by operating activities	72	68
Cash flows from investing activities		
Additions to property, plant and equipment	(37)	(21)
Proceeds from the sale of assets	1	1
Net change in affiliated advances receivable	58	—
Net cash provided by (used in) investing activities	22	(20)
Cash flows from financing activities		
Net borrowings (repayments) under commercial paper and short-term credit facilities	121	(48)
Payments to retire long-term debt	(215)	—
Net cash used in financing activities	(94)	(48)
Change in cash and cash equivalents	—	—
Cash and cash equivalents		
Beginning of period	—	—
End of period	$ —	$ —

See accompanying notes.

EL PASO NATURAL GAS COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Our 2001 Annual Report on Form 10-K includes a summary of our significant accounting policies and other disclosures. You should read it in conjunction with this Quarterly Report on Form 10-Q. The financial statements as of March 31, 2002, and for the quarters ended March 31, 2002 and 2001, are unaudited. The balance sheet as of December 31, 2001, is derived from the audited balance sheet filed in our Form 10-K. These financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission and do not include all disclosures required by accounting principles generally accepted in the United States. In our opinion, we have made all adjustments, all of which are of a normal, recurring nature (except for merger-related costs which are discussed below), to fairly present our interim period results. Information for interim periods may not necessarily indicate the results of operations for the entire year due to the seasonal nature of our businesses.

Our accounting policies are consistent with those discussed in our Form 10-K.

2. Merger-Related Costs

During the quarter ended March 31, 2001, we incurred merger-related costs of $8 million associated with El Paso Corporation's merger with The Coastal Corporation and the relocation of our headquarters to Colorado Springs, Colorado. These costs consisted of employee severance, retention and transition costs for severed employees that occurred as a result of El Paso's merger-related workforce reduction and consolidation. Our merger-related costs also included actual severance payments and costs for pension and post-retirement benefits settled and curtailed under existing benefit plans. These costs were expensed as incurred and were paid in the first and second quarters of 2001.

3. Debt and Other Credit Facilities

At March 31, 2002, our weighted average interest rate on our commercial paper was 2.7%, and at December 31, 2001, it was 3.3%. We had the following short-term borrowings including current maturities of long-term debt:

	March 31, 2002	December 31, 2001
	(In millions)	
Commercial paper	$560	$439
Current maturities of long-term debt	—	215
	$560	$654

In January 2002, we retired $215 million aggregate principal amount of 7.75% notes due 2002.

4. Commitments and Contingencies

Legal Proceedings

El Paso and several of its subsidiaries were named defendants in eleven purported class action, municipal or individual lawsuits, filed in the California state courts (a list of the *California* cases is included in Part II, Item 1, Legal Proceedings.) We are a defendant in ten of these lawsuits. The eleven suits contend that El Paso entities acted improperly to limit the construction of new pipeline capacity to California and/or to manipulate the price of natural gas sold into the California marketplace. The lawsuits are at the preliminary pleading stages with trial not anticipated until late 2003 at the earliest.

In September 2001, we received a civil document subpoena from the California Department of Justice, seeking information said to be relevant to the Department's ongoing investigation into the high electricity prices in California. We have produced and expect to continue to produce materials pursuant to this subpoena.

In August 2000, a main transmission line owned and operated by us ruptured at the crossing of the Pecos River near Carlsbad, New Mexico. Twelve individuals at the site were fatally injured. On June 20, 2001, the U.S. Department of Transportation's Office of Pipeline Safety issued a Notice of Proposed Violation to us. The Notice alleged five probable violations of its regulations (a list of the alleged five probable violations is included in Part II, Item 1, Legal Proceedings), proposed fines totaling $2.5 million and proposed corrective actions. In October 2001, we filed a detailed response with the Office of Pipeline Safety disputing each of the alleged violations. We are cooperating with the National Transportation Safety Board in an investigation into the facts and circumstances concerning the possible causes of the rupture. If we are required to pay the proposed fines, it will not have a material adverse effect on our financial position, operating results or cash flows. In addition, a number of personal injury and wrongful death lawsuits were filed against us in connection with the rupture. Several of these suits have been settled, with payments fully covered by insurance. Seven Carlsbad lawsuits remain, with one of those seven having reached a contingent settlement within insurance coverage (a list of the remaining *Carlsbad* lawsuits is included in Part II, Item 1, Legal Proceedings).

In 1997, we and a number of our affiliates were named defendants in actions brought by Jack Grynberg on behalf of the U.S. Government under the False Claims Act. Generally, these complaints allege an industry-wide conspiracy to under report the heating value as well as the volumes of the natural gas produced from federal and Native American lands, which deprived the U.S. Government of royalties. These matters have been consolidated for pretrial purposes (In re: Natural Gas Royalties *Qui Tam* Litigation, U.S. District Court for the District of Wyoming, filed June 1997). In May 2001, the court denied the defendants' motions to dismiss.

We and a number of our affiliates were named defendants in *Quinque Operating Company, et al v. Gas Pipelines and Their Predecessors, et al*, filed in 1999 in the District Court of Stevens County, Kansas. This class action complaint alleges that the defendants mismeasured natural gas volumes and heating content of natural gas on non-federal and non-Native American lands. The Quinque complaint was transferred to the same court handling the Grynberg complaint and has now been sent back to Kansas State Court for further proceedings. A motion to dismiss this case is pending.

We are also a named defendant in numerous lawsuits and a named party in numerous governmental proceedings arising in the ordinary course of our business.

While the outcome of the matters discussed above cannot be predicted with certainty, based on information known to date, we do not expect the ultimate resolution of these matters will have a material adverse effect on our financial position, operating results or cash flows.

Environmental Matters

We are subject to extensive federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. As of March 31, 2002, we had a reserve of approximately $28 million for expected remediation costs. In addition, we expect to make capital expenditures for environmental matters of approximately $4 million in the aggregate for the years 2002 through 2007. These expenditures primarily relate to compliance with clean air regulations.

We have been designated and have received notice that we could be designated, or have been asked for information to determine whether we could be designated, as a Potentially Responsible Party (PRP) with respect to 4 sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or state equivalents. We have sought to resolve our liability as a PRP at these CERCLA sites, as appropriate, through indemnification by third parties and settlements which provide for payment of our allocable share of remediation costs. As of March 31, 2002, we have estimated our share of the remediation costs at these sites to be between $15 million and $19 million and have provided reserves that we believe are adequate for such costs. Since the clean-up costs are estimates and are subject to revision as more information becomes available about the extent of remediation required, and because in some cases we have asserted a defense to any liability, our estimates could change. Moreover, liability under the federal CERCLA statute is joint and several, meaning that we could be required to pay in excess of our pro rata share of remediation costs. Our understanding of the financial strength of other PRPs has been considered, where appropriate, in the determination of our estimated liabilities. We presently believe that, based on our existing reserves, and information known to date, the impact of the costs associated with these CERCLA sites will not have a material adverse effect on our financial position, operating results or cash flows.

It is possible that new information or future developments could require us to reassess our potential exposure related to environmental matters. We may incur significant costs and liabilities in order to comply with existing environmental laws and regulations. It is also possible that other developments, such as increasingly strict environmental laws and regulations and claims for damages to property, employees, other persons and the environment resulting from our current or past operations, could result in substantial costs and liabilities in the future. As this information becomes available, or other relevant developments occur, we will adjust our accrual amounts accordingly. While there are still uncertainties relating to the ultimate costs we may incur, based on our evaluation and experience to date, we believe the recorded reserves are adequate.

Rates and Regulatory Matters

In April 2000, the California Public Utilities Commission (CPUC) filed a complaint with the Federal Energy Regulatory Commission (FERC) alleging that our sale of approximately 1.2 billion cubic feet per day of California capacity to our affiliate, El Paso Merchant Energy Company, was anticompetitive and an abuse of the affiliate relationship under the FERC's policies. Other parties in the proceeding requested that the original complaint be set for hearing and that Merchant Energy pay back any profits it earned under the contract. In March 2001, the FERC established a hearing, before an administrative law judge, to address the issue of whether we and/or Merchant Energy had market power and, if so, had exercised it. In October 2001, a FERC administrative law judge issued a proposed decision finding that El Paso did not exercise market power and that the market power portion of the CPUC's complaint should be dismissed. The decision further found that El Paso had violated FERC's marketing affiliate regulations. In October 2001, the Market Oversight and Enforcement (MOE) section of the FERC's Office of the General Counsel filed comments in this proceeding stating that record development at the trial was inadequate to conclude that we complied with FERC's regulations. We filed a motion to strike the MOE's pleading, but in December 2001, the FERC denied our motion and remanded the proceeding to the administrative law judge for a supplemental hearing on the availability of capacity at El Paso's California delivery points. The hearing commenced on March 21, 2002 and concluded on April 4, 2002. Oral argument was held on April 10, 2002, and post-hearing briefing is to be completed by June 5, 2002.

In late 1999, several of our customers filed complaints requesting that the FERC order us to cease and desist from selling primary firm delivery point capacity at the Southern California Gas Company Topock delivery point in excess of the downstream capacity available at that point and to cease and desist from overselling firm mainline capacity on the east-end of our mainline system. Several technical conferences and alternative dispute resolution meetings were held during the summer of 2000 but they failed to produce a settlement. In October 2000, the FERC ordered us to make a one time allocation of available delivery point capacity at the Southern California Gas Company Topock delivery point among affected firm shippers, but deferred action on east-end and system-wide capacity allocation issues. In February 2001, the FERC issued an order accepting our tariff filing affirming the results of the Topock delivery point allocation process and directing us to formulate a system-wide capacity allocation methodology to be addressed in our order No. 634 proceeding. In March 2001, we filed our proposed system-wide allocation methodology with the FERC. In April 2001, the February 2001 order was appealed by a customer to the U.S. Court of Appeals for the 9th Circuit and that appeal is pending a decision. In July 2001 and August 2001, technical conferences were conducted by the FERC on our system-wide capacity allocation proposal, after which the parties have submitted position papers to the FERC regarding the appropriate method for allocating receipt point capacity on our system.

Two groups of our customers, those within California and those east of California, have filed complaints against us with the FERC. In July 2001, twelve parties composed of California customers, natural gas producers and natural gas marketers, filed a complaint alleging that our full requirements contracts with our east of California customers should be converted to contracts with specific volumetric entitlements, that we should be required to expand our interstate pipeline system and that firm shippers who experience reductions in their nominated gas volumes should be awarded demand charge credits. Also, in July 2001, ten parties, most of which are east of California full-requirement contract customers, filed a complaint against us with the FERC, alleging that we violated the Natural Gas Act of 1938 and breached our contractual obligations by failing to expand our system in order to serve the needs of the full-requirement contract shippers. The complainants have requested that the FERC require us to show cause why we should not be required to augment our system capacity. In September 2001, the July 2001 complainants filed a motion for partial summary disposition of their complaint, to which we responded. In addition, in November 2001, one of the complainants submitted a type of settlement proposal that we and most other parties have opposed. At its March 13, 2002 public meeting, the FERC Staff made a presentation to the FERC Commissioners recommending that the FERC address the capacity allocation issues raised in these and our other proceedings by, among other things, eliminating the full requirements provisions from all of our contracts except those in a small customer category and converting them to contracts with specific volumetric entitlements. The Staff also recommended scheduling a technical conference. A technical conference attended by the Commissioners was held on April 16, 2002, at which we, state commissions and customer groups presented comments. Responses to the presentations were filed by us and others on April 30, 2002.

Our current rate settlement establishes, among other things, base rates through December 31, 2005. According to the settlement, our base rates began escalating annually in 1998 as a result of inflationary factors. We have the right to increase or decrease our base rates if changes in laws or regulations result in increased or decreased costs in excess of $10 million a year. In addition, all of our settling customers participate in risk sharing provisions under our rate case settlement. Under these provisions, we receive cash payments totaling $295 million for a portion of the risk we assumed from capacity relinquishments by our customers at the end of 1997. The cash received is deferred, and we recognize this deferral in revenues ratably over the risk sharing period. As of March 31, 2002, we had unearned risk sharing revenues of approximately $56 million and had $23 million remaining to be collected from customers under this provision. Amounts received for relinquished capacity to customers above certain dollar levels specified in the rate settlement obligate us to refund a portion of the excess to customers. Under this provision, we refunded $46 million of 2001 revenues to customers during 2001 and through March 31, 2002. During 2002, we established an additional refund obligation of $11 million. Both the risk and revenue sharing provisions of the rate settlement extend through 2003. Our unresolved matter in our current rate settlement involves the application of one existing fuel recovery mechanism as it relates to compression facilities that were abandoned. An appeal was filed in the Fifth Circuit Court of Appeals and was transferred to the D.C. Circuit Court of Appeals. On April 3, 2002, the court dismissed the appeal in its entirety.

In September 2001, the FERC issued a Notice of Proposed Rulemaking (NOPR). The NOPR proposes to apply the standards of conduct governing the relationship between interstate pipelines and marketing affiliates to all energy affiliates. The proposed regulations, if adopted by the FERC, would dictate how all our energy affiliates conduct business and interact with our interstate pipelines. In December 2001, we filed comments with the FERC addressing our concerns with the proposed rules. In April 2002, the FERC Staff issued a notice of a public conference to be held on May 21, 2002, at which interested parties will be given an opportunity to comment further on the NOPR. We cannot predict the outcome of the NOPR, but adoption of the regulations in substantially the form proposed would, at a minimum, place additional administrative and operational burdens on us.

In January 2002, we were selected for an industry-wide audit by the FERC's Office of the Executive Director, Division of Regulatory Audits. The audit will focus on FERC Form 2 and affiliated transactions for the period January 1, 2000 through December 31, 2001.

While we cannot predict with certainty the final outcome or timing of the resolution of all of our rates and regulatory matters, we believe the ultimate resolution of these issues, based on information known to date, will not have a material adverse effect on our financial position, results of operations or cash flows.

Other Matters

In December 2001, Enron Corp. and a number of its subsidiaries, including Enron North America Corp. and Enron Power Marketing, Inc., filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York. Affiliates of Enron have contracts for both short-term and long-term transportation on our pipeline system. As of December 31, 2001, we established reserves for potential losses related to receivables from these contracts and have continued to do so on a monthly basis. Enron rejected the contracts on May 3, 2002, by failing to assume them on that date in its bankruptcy proceeding. Now that we have this capacity back, we will seek to maximize its value. We cannot at this time predict the value we will obtain for the rejected capacity.

5. Related Party Transactions

We participate in El Paso's cash management program which matches short-term cash surpluses and need requirements of its participating affiliates, thus minimizing total borrowing from outside sources. We had advanced $1,236 million at March 31, 2002, at a market rate of interest which was 1.9%. At December 31, 2001, we had advanced $1,294 million, at a market rate of interest which was 2.1%.

At March 31, 2002 and December 31, 2001, we had other accounts receivable from related parties of $3 million and $4 million. Accounts payable to related parties was $10 million at March 31, 2002, versus $9 million at December 31, 2001, and other current liabilities include dividends payable to our parent of $9 million and $2 million at March 31, 2002 and December 31, 2001. These balances arose in the normal course of business.

In January 2002, we distributed assets through a dividend to our parent with a net book value of $19 million. We also accrued $7 million in dividends associated with our preferred stock during the first quarter 2002.

6. New Accounting Pronouncements Not Yet Adopted

Accounting for Asset Retirement Obligations

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations.* This Statement requires companies to record a liability relating to the retirement and removal costs of assets used in their business. The liability is discounted to its present value, and the related asset value is increased by the amount of the resulting liability. Over the life of the asset, the liability will be accreted to its future value and eventually extinguished when the asset is taken out of service. Capitalized retirement and removal costs will be depreciated over the useful life of the related asset. The provisions of this Statement are effective for the fiscal years beginning after June 15, 2002. We are currently evaluating the effects of this pronouncement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in Item 2 updates, and you should read it in conjunction with, information disclosed in our Annual Report on Form 10-K filed March 20, 2002, in addition to the financial statements and notes presented in Item 1, Financial Statements, of this Quarterly Report on Form 10-Q.

Results of Operations

Below are the operating results and an analysis of these results for the quarters ended March 31:

	2002	2001
	(In millions, except volume amounts)	
Operating revenues	$ 152	$ 141
Operating expenses	(71)	(74)
Other income	1	—
Earnings before interest and income taxes	$ 82	$ 67
Throughput volumes (BBtu/d)[1]	4,203	4,826

[1] BBtu/d means billion British thermal units per day.

Operating revenues for the quarter ended March 31, 2002, were $11 million higher than the same period in 2001 primarily due to a larger portion of our capacity earning maximum tariff rates compared to the same period in 2001. Partially offsetting the increase were lower prices on fuel recoveries from customers and lower throughput to California and other western states due to milder weather in the first quarter of 2002, as well as the impact of lower rates on the Mojave Pipeline system as a result of a rate case settlement effective October 2001.

Operating expenses for the quarter ended March 31, 2002, were $3 million lower than the same period in 2001. The decrease was primarily due to merger-related costs incurred in the first quarter of 2001 related to the relocation of our headquarters from El Paso, Texas to Colorado Springs, Colorado as part of El Paso's merger with Coastal and lower compressor fuel costs resulting from lower natural gas prices. The decrease was partially offset by increases to our reserve for bad debts related to the bankruptcy of Enron Corp.

Interest and Debt Expense

Non-affiliated Interest and Debt Expense

Non-affiliated interest and debt expense for the quarter ended March 31, 2002, was $7 million lower than the same period in 2001 primarily due to long-term debt reductions and lower interest rates on commercial paper borrowings.

Affiliated Interest Income

Affiliated interest income for the quarter ended March 31, 2002, was $13 million lower than the same period in 2001 due primarily to lower short-term interest rates in 2002 on advances to El Paso under our cash management program.

Income Taxes

The income tax expense for the quarters ended March 31, 2002 and 2001, was $28 million and $23 million, resulting in effective tax rates of 38 percent and 37 percent. Our effective tax rates were different than the statutory rate of 35 percent primarily due to state income taxes.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Where any forward-looking statement includes a statement of the assumptions or bases underlying the forward-looking statement, we caution that, while we believe these assumptions or bases to be reasonable and to be made in good faith, assumed facts or bases almost always vary from the actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, we or our management express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis. We cannot assure you, however, that the statement of expectation or belief will result or be achieved or accomplished. The words "believe," "expect," "estimate," "anticipate" and similar expressions will generally identify forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This information updates, and you should read it in conjunction with, information disclosed in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2001, in addition to the information presented in Items 1 and 2 of this Quarterly Report on Form 10-Q.

There are no material changes in our quantitative and qualitative disclosures about market risks from those reported in our Annual Report on Form 10-K for the year ended December 31, 2001.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Financial Information, Note 4, which is incorporated herein by reference.

The *California* cases are: five filed in the Superior Court of Los Angeles County *(Continental Forge Company, et al v. Southern California Gas Company, et al,* filed on September 25, 2000; *Berg v. Southern California Gas Company, et al,* filed December 18, 2000; *County of Los Angeles v. Southern California Gas Company, et al* filed January 8, 2002; *The City of Los Angeles, et al v. Southern California Gas Company, et al* and *The City of Long Beach, et al v. Southern California Gas Company, et al,* both filed on March 20, 2001); two filed in the Superior Court of San Diego County *(John W.H.K. Phillip v. El Paso Merchant Energy;* and *John Phillip v. El Paso Merchant Energy,* both filed December 13, 2000); three filed in the Superior Court of San Francisco County *(Sweetie's et al v. El Paso Corporation, et al,* filed on March 22, 2001; and *California Dairies, Inc., et al v. El Paso Corporation, et al,* filed May 21, 2001); and one filed in the Superior Court of the State of California, County of Alameda *(Dry Creek Corporation v. El Paso Natural Gas Company, et al* filed December 10, 2001).

The alleged five probable violations of the regulations of the Department of Transportation's Office of Pipeline Safety are: 1) failure to perform appropriate tasks to prevent corrosion, with an associated proposed fine of $500,000; 2) failure to investigate and minimize internal corrosion, with an associated proposed fine of $1,000,000; 3) failure to consider unusual operating and maintenance conditions and respond appropriately, with an associated proposed fine of $500,000; 4) failure to follow company procedure, with an associated proposed fine of $500,000; and 5) failure to maintain topographical diagrams, with an associated proposed fine of $25,000.

The six remaining *Carlsbad* lawsuits are as follows: one filed in district court in Harris County, Texas *(Geneva Smith, et al v. EPEC and EPNG,* filed October 23, 2000), and five filed in state district court in Carlsbad, New Mexico *(Chapman, as Personal Representative of the Estate of Amy Smith Heady, v. EPEC, EPNG and John Cole,* filed February 9, 2001; *Chapman, as Personal Representative of the Estate of Dustin Wayne Smith, v. EPEC, EPNG and John Cole; Chapman, as Personal Representative of the Estate of Terry Wayne Smith, v. EPNG, EPEC and John Cole; Rackley, as Personal Representative of the Estate of Glenda Gail Sumler, v. EPEC, EPNG and John Cole; and Rackley, as Personal Representative of the Estate of Amanda Sumler Smith, v. EPEC, EPNG and John Cole,* all filed March 16, 2001). We have reached a contingent settlement in an additional case *(Dawson, as Personal Representative of Kirsten Janay Sumler, v. EPEC and EPNG,* filed November 8, 2000).

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security-Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None.

Undertaking

We hereby undertake, pursuant to Regulation S-K, Item 601(b), paragraph (4)(iii), to furnish to the U.S. Securities and Exchange Commission, upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith for the reason that the total amount of securities authorized under any of such instruments does not exceed 10 percent of our total consolidated assets.

b. Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EL PASO NATURAL GAS COMPANY

Date: May 10, 2002

/s/ JOHN W. SOMERHALDER II

John W. Somerhalder II
Chairman of the Board,
Chief Executive Officer and Director
(Principal Executive Officer)

Date: May 10, 2002

/s/ GREG G. GRUBER

Greg G. Gruber
Senior Vice President,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)